

Investment Considerations for TIPS

From the Uniform Offering Circular Appendix C to Part 356

Participating in an auction is easy.

We must receive tenders prior to the auction closing times listed on the offering announcement.

For noncompetitive *TreasuryDirect* tenders submitted over the Internet or telephone, the deadline is generally Noon ET the day of the auction. Mailed noncompetitive tenders must arrive by the issue date and be postmarked the day prior to the auction.

For competitive tenders submitted by fax or mail, the deadline is generally 1:00 p.m. ET the day of the auction. These deadlines may vary and special circumstances may require a change in time frames, so always refer to the offering announcement before bidding to confirm dates and times.

You can check the web site at www.treasurydirect.gov or call us at 1-800-722-2678.

Where do I submit my tender or New Account Request?

Mail the tender or *New Account Request* to your Treasury Retail Securities Site or buy your securities online (www.treasurydirect.gov) or by phone (1-800-722-2678). Outside the U.S.? Call 304-480-6158.

We will send you a *TreasuryDirect* Statement of Account confirming the deposit of securities in your account.

How can I pay for my securities?

We can electronically collect the security's purchase price from the checking or savings account at your financial institution—the one you designated for payments when you set up your *TreasuryDirect* account. Your money stays in your bank account until the day we actually issue the security. Because you don't have to mail a check in early, you can earn interest right up to the last minute.

You may also use personal checks or checks issued by financial institutions in the full amount of the application. Make checks payable to *TreasuryDirect*. We don't accept two-party checks or credit cards.

Principal and Interest Variability

An investment in securities with principal or interest determined by reference to an inflation index involves factors not associated with an investment in a fixed-principal security. Such factors may include, without limitation, the possibility that the inflation index may be subject to significant changes, that changes in the index may or may not correlate to changes in interest rates generally or with changes in other indices, that the resulting interest may be greater or less than that payable on other securities of similar maturities, and that, in the event of sustained deflation, the amount of the semiannual interest payments, the inflation-adjusted principal of the security, and the value of stripped components, will decrease. However, if at maturity the inflation-adjusted principal is less than a security's par amount, an additional amount will be paid at maturity so that the additional amount plus the inflation-adjusted principal equals the par amount. Regardless of whether or not such an additional amount is paid, interest payments will always be based on the inflation-adjusted principal as of the interest payment date. If a security has been stripped, any such additional amount will be paid at maturity to holders of principal components only.

Trading in the Secondary Market

The Treasury securities market is the largest and most liquid securities market in the world. While Treasury expects that there will be an active secondary market for TIPS, that market initially may not be as active or liquid as the secondary market for Treasury fixed-principal securities. In addition, TIPS may not be as widely traded or as well understood as Treasury fixed-principal securities. Lesser liquidity and fewer market participants may result in larger spreads between bid and asked prices for TIPS than the bid-asked spreads for fixed-principal securities with the same time to maturity. Larger bid-asked spreads normally result in higher transaction costs and/or lower overall returns. The liquidity of TIPS may be enhanced over time as Treasury issues additional amounts or more entities participate in the market.

Tax Considerations

TIPS and the stripped interest and principal components of these securities are subject to specific tax rules provided by Treasury regulations issued under sections 1275(d) and 1286 of the Internal Revenue Code of 1986, as amended.

Indexing Issues

While the CPI measures changes in prices for goods and services, movements in the CPI that have occurred in the past are not necessarily indicative of changes that may occur in the future.

The calculation of the index ratio incorporates an approximate three-month lag, which may have an impact on the trading price of the securities, particularly during periods of significant, rapid changes in the index.

The CPI is reported by the Bureau of Labor Statistics, a bureau within the Department of Labor. The Bureau of Labor Statistics operates independently of the Treasury and, therefore, Treasury has no control over the determination, calculation, or publication of the index. For a discussion of how the CPI will be applied in various situations, see appendix B, section I, paragraph B. In addition, for discussions of actions that Treasury would take in the event the CPI is: discontinued; in the judgment of the Secretary, fundamentally altered in a manner materially adverse to the interests of an investor in the security; or, in the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the interests of an investor in the security, see appendix B, section I, paragraph B.



PD P 0015
Department of the Treasury
Bureau of the Public Debt
(Revised August 2004)

www.treasurydirect.gov
1-800-722-2678 (Electronic Services)
Outside the U.S.? Call 304-480-6158.

TIPS



TreasuryDirect

A Different Kind of Security... *that may just fit your needs.*

Saving for retirement? Looking toward your children’s education? Perhaps you’re saving for other important needs.

Since 1997, the U.S. Treasury has offered a different kind of security: the inflation-indexed security, often called TIPS. For many investors, this security provides a new investment option geared toward long-term goals.

TIPS give investors a chance to buy a security that keeps pace with inflation.

About TIPS.

When you buy TIPS, Treasury pays you interest on the inflation-adjusted principal amount. We call this process indexing. Competitive bidding before the security’s original issue sets the fixed interest (or coupon) rate.

At maturity, we pay you the inflation-adjusted principal or the original par amount, whichever is more.

We issue TIPS through Public Debt’s *TreasuryDirect* system and through TRADES—the commercial book-entry system where Financial institutions or government securities brokers/dealers hold the securities on your behalf.

Why buy TIPS?

Your investment keeps pace with inflation. The security’s value is adjusted for inflation. Plus, the money you receive when the securities mature won’t drop below the original par amount.

You know it’s safe. As always, Treasury securities are backed by the full faith and credit of the U.S. Government. You’re also guaranteed full par value at maturity.

It’s also convenient. You hold these securities electronically through *TreasuryDirect* or through your financial broker/dealer.

Payments are timely. Treasury deposits your interest and maturity payments directly to an account at the financial institution you choose.

Your investment is marketable. You can sell your TIPS on the secondary market.

You get state and local tax breaks. TIPS are exempt from state and local taxes, although Federal income taxes apply.

Interested?

Here’s a little more information.

Explain the indexing process.

We index the par amount of the securities to the non-seasonally adjusted Consumer Price Index for All Urban Consumers (CPI-U). We determine the index ratio by dividing the current CPI-U level by the CPI-U level that applied when the securities were issued.

How is interest calculated throughout the year?

Every six months, Treasury pays interest at the fixed rate of interest determined at auction. These semiannual interest payments are determined by multiplying the inflation-adjusted principal amount by one-half the stated rate of interest on each interest payment date.

How will I know the amount of my interest payment?

Confirmation of Interest Due. If you hold your securities through *TreasuryDirect*, you’ll receive a Confirmation of Interest Due before the interest payments are scheduled.

Direct Deposit. Your payments are automatically deposited into an account at the financial institution you designate. Your bank’s statement will show the amount credited.

When is this security sold?

- We sell TIPS as follows:
- 5-Year -----➤ April & October
 - 10-Year -----➤ January & July
(April & October reopenings)
 - 20-Year -----➤ January & July

Auction information and possible offerings can be found at www.publicdebt.treas.gov/of/ofaucrt.htm

What’s my minimum bid? My maximum bid?

The minimum bid for TIPS is \$1,000. The maximum is \$5 million. The securities are sold in multiples of \$1,000.

What auction technique is used?

We use a single-price auction format for TIPS. In other words, each successful competitive bidder and each noncompetitive bidder is awarded securities at the price equivalent to the highest accepted yield.

How is the yield determined?

Competitive bids are accepted starting with the lowest yield to the highest yield needed to fill the public offering.

Although competitive bidding is how we set the interest rate on TIPS, you aren’t required to submit a competitive bid. Your noncompetitive bid will buy securities at the yield established at the auction.

Tell me about my taxes.

Although exempt from state and local taxes, interest on TIPS is subject to Federal income tax. Plus, in any year when the accrued inflation compensation goes up, it’s considered reportable income, even though you won’t receive the inflation-adjusted principal until maturity.

We’ll send you the appropriate 1099 statements each year. Talk to your tax adviser.

Trade your securities.

Trade. You may trade TIPS on the secondary market. *TreasuryDirect* offers *Sell Direct*—a securities sales program where we trade the securities for you. We get quotes from different brokers, and you always get the best price offered. You pay a very competitive fee—currently only \$34 for each security sold.

STRIPS

STRIPS. TIPS are eligible for stripping in the commercial book-entry system by authorized brokers/dealers through the STRIPS program. (This feature is not available through *TreasuryDirect*.)

Like What You’re Reading?

Here’s what to do next.

Know what you’re getting into.

As always, you should be sure investing in TIPS meets your needs. That’s why we encourage you to talk with your tax adviser or accountant to find out if these securities fit your portfolio. If you’d like more information on TIPS, try these sources:

- Call *TreasuryDirect* at 1-800-722-2678. Outside the U.S.? Call 304-480-6158.
- Uniform Offering Circular, 31 CFR Part 356.
- The *TreasuryDirect* web site at: www.treasurydirect.gov

How do I buy TIPS?

Treasury securities have auction and issue dates. The auction date is the deadline for submitting your tender. The issue date is the date you begin earning interest. (For more details, see the next section about participating in an auction.)

You can open an account with your first purchase if you use the *Treasury Marketable Securities Tender* (PD F 5381). Not ready to buy yet? You can still open an account by using the *New Account Request* (PD F 5182) and buy later. Download these forms from our web site (www.treasurydirect.gov) or request one from the web ordering page or by calling us at 1-800-722-2678.

If you have an account, you can buy directly from the comfort of your own home with our electronic services! With a click or two of the mouse (**www.treasurydirect.gov**) or with a toll-free phone call (**1-800-722-2678**), you can buy TIPS directly from the Treasury. Outside the U.S.? Call 304-480-6158.